ATTACHMENT 4

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Argentina Is Still Shaky Despite Currency Measures

By LARRY ROHTER

The Argentine government's devaluation of the peso by nearly 30 percent on Sunday night was supposed to bring an end to an emergency bank holiday here, which began before Christmas. But after four business days, banks and foreign exchange houses still have not resumed normal operations, and it is not clear when they will. Irritation, uncertainty and nervousness continued unchecked.

Despite the new two-tiered exchange rate that formally went into effect on Monday morning, black-market street dealers remained the only certain source of dollars, often at rates that strayed far from the official 1.40 pesos to the dollar set by the government.

At the same time, bank transactions as simple as cashing a paycheck or paying a credit card bill remained out of reach of ordinary Argentines.

Today, the government imposed even tighter restrictions, effectively freezing all savings accounts above $3,000 for at least a year. At least one-third of the nation's $67 billion in savings balances were affected by the order.

Those who have smaller dollar accounts will get access to their money sooner, but only if they agree to be paid in pesos at the new official rate, which remains unproved and untested.

Government officials said the delay in putting the new exchange rate into effect was largely a technical problem, a result of having to reprogram computers and train clerks after a decade in which the peso and the American dollar were interchangeable. "We don't want an opening that has a lot of problems," said Eduardo Amadeo, the spokesman for President Eduardo Duhalde.

But there are also obvious political reasons the new measures, in particular the lifting of the bank holiday, have not yet taken effect. Only three weeks have elapsed since food riots and violent street demonstrations left 27 people dead and forced President Fernando de la Rúa to step down, and nerves are still on edge.

"The government is walking a very narrow line" between a renewal of public protests and the collapse of the banking system, Martín Oviedo wrote today in the daily La Nación. "Any false step can deepen the crisis and even turn on the warning light as regards the administration of Eduardo Duhalde."

Behind the scenes, the government and bankers have also been arguing over how much of the cost of the devaluation should be borne by financial institutions, with the government acknowledging tremendous pressure from financial institutions. The estimates of losses range from the government's figure of about $6 billion up to an initial figure of $15 billion suggested by some bankers.

When it announced the devaluation, the government also sought to protect ordinary Argentines by allowing them to repay any debt of $100,000 or less in pesos rather than dollars, and at the more favorable one-to-one rate prevailing before the devaluation. The order was a tremendous blow to the banks' profits, since 80 percent of outstanding loans in the country had been denominated in dollars.

The government has said it plans to reimburse banks gradually for the cost of converting the dollar loans to pesos. The money is to come from a new tax on oil and gas exports, which government officials say will generate as much as $700 million a year but which is also being fought by oil companies.

Over all, banks here hold dollar deposits of about $43.5 billion and peso deposits that were worth $15.7 billion before devaluation. Spanish-owned banks hold a combined $17 billion of that; American-owned banks about $10 billion.

Some banks are not waiting to see how the bargaining with the government plays out. On Monday, Banamex of Mexico, a unit of Citigroup, gave up its majority stake in Banco Bansud here to a local bank in a transaction that required Banamex to pay $150 million to the new owner to assume Bansud's loans

But depositors are just as unhappy, especially with the new measures announced late on Wednesday. According to the timetable the government has established, depositors with dollar accounts of up to $5,000 will begin to get their money back a year from now, and then only in 12 monthly installments.

For those with larger dollar accounts, the process will start as late as September 2003 and take two years. Those with peso accounts are to be treated more leniently, but they will not begin seeing their money for at least another two months and will also have to accept repayment in installments.

When he took office on Dec. 31, Mr. Duhalde promised that those who had deposited dollars would get back dollars, and those who had deposited pesos would get back every peso. But he never said when, and his advisers are worried that allowing unfettered withdrawals will quickly wreck the banking system.

"If the banks go bust, nobody gets their deposits back," the economy minister, Jorge Remes Lenicov, warned the nation in a televised speech on Wednesday night. "The money on hand is not enough to pay back all depositors."